SOCIAL PLANNING COUNCIL OF METROPOLITAN TORONTO

Discussion Paper
in Social Policy

Number 1

RENT REVIEW IN ONTARIO AND FACTORS AFFECTING THE SUPPLY OF RENTAL HOUSING

by

Jeffrey Patterson

© Copyright by the

Social Planning Council
of Metropolitan Toronto
Suite 1000
950 Yonge Street
Toronto, Ont., M4W 2J4
Telephone: 961-9831

ISBN: 919456-40-5

Price: $6.00

OTHER RELATED REPORTS AVAILABLE FROM THE SOCIAL PLANNING COUNCIL OF METROPOLITAN TORONTO

1. A New Housing Agenda for Metropolitan Toronto (March 1984), $9.00.

   This study looks at the changing nature of government housing programs since 1945, and how these initiatives have contributed to the current stock of housing for low-income households in Metropolitan Toronto. It documents the reduced commitment of both senior levels of government in responding to growing needs during the last decade, and evaluates alternative programs to meet this need. The study concludes that at least 70,000 households will require some form of rent-geared-to-income housing within 15 years, and proposes an assisted housing target of 4,500 units/year to address this.

2. "Strategies for Implementing A New Housing Agenda For Metropolitan Toronto: A Response to the Federal Government's Consultation Paper on Housing" (March 1985), $5.00.

   A strategy document containing a program and specific proposals for meeting the assisted housing targets identified in the New Housing Agenda report. This paper also incorporates some comments and observations regarding on the large range of issues raised by the federal government's consultation paper on housing.

3. "Housing Affordability in Metropolitan Toronto, 1985" Social Infopac, Vol. 4, No. 2 (May 1985), $1.50, $10.00 annually for subscription.

   An update of a 1982 Social Infopac, it examines the question of housing affordability for both ownership and rental housing in Metropolitan Toronto in light of the recent economic recession, reduced rates of inflation, lower interest rates and declining real incomes. Volume 1, No. 2 (April 1982) is still available from the Council's publication department.

4. The Faces Behind the Need for Housing (forthcoming).

   The second of the SPC's Discussion Papers in Social Policy, this report is the result of a consultation process involving the participation of 19 human service agencies in a survey of the housing problems being experienced by their clients. It explores the relationship between various household characteristics such as size, type, and income with measures of housing condition (adequacy), overcrowding (suitability) and affordability.

5. The Viability of A National Shelter Allowance Program: A Critical Assessment of The Steele Report (May, 1985), $5.00.

An examination of the ability of a national shelter allowance program to meet the need for affordable housing among low and moderate income households. The study looks at the parameters of such a program in relation to limits on eligibility, rent inflation, program costs, the experience of provincial programs, the link with rent deregulation and, in general, its success in meeting the need for assistance. The report concludes that the proposed program significantly understates cost, that many households in need would receive little or no assistance, and that it would do nothing to spur the construction of affordable housing.

PREFACE

The Social Planning Council has contributed to each and every stage of the discussion of Ontario's rent review program. As Ontarioans and Torontonians were debating whether or not Ontario should adopt a system of rent review, and if so the details of that system, we published Rent Controls: Why We Need Them. What Kind? How Long? A Background Analysis in 1975. In 1978 the Ontario Legislative Assembly was debating the Residential Tenancies Act, and the SPC presented the brief, Policy Options for Continuing Tenant Protection.

This discussion paper addresses one of the central controversies of rent review in Ontario: to what extent has rent review in and of itself affected the willingness of investors to initiate new rental housing and consequently depressed new apartment starts? The Social Planning Council's Policy and Program Committee requested in 1983 that staff examine the affect of rent review on the supply of rental housing in Ontario when the Council presented its first brief to the Commission of Inquiry into Residential Tenancies, the Thom Commission.

The Commission, for which Stuart Thom was named sole commissioner in 1982, was established to respond to the need for changes in Ontario's rent review legislation, especially in light of the "flip" of the 11,000 Cadillac-Fairview apartments that were sold and re-sold several times in October and November 1982.

In April 1983 the Council presented its first brief to the Thom Commission. The most significant contribution of that submission was to point out the need for a system of registration of authorized rents for rental housing, as one could not fail to conclude on the basis of published data on rents that significant numbers of landlords were increasing rents by more than the ceiling specified in the legislation. The Commission's first report was published in August 1984.

The Thom Commission is currently in the process of writing its second report. While the Social Planning Council decided not to participate formally in the second stage of this process, it was nevertheless felt that we could contribute to the discussion that was taking place before the Thom Commission. This paper looks at major factors influencing the supply of rental housing. We review indicators of housing demand, and the costs of developing and operating rental housing, as well as some competing investment opportunities and other macro-economic factors that influence the decision of private builders to build or not to build rental housing. Finally, this paper considers the role of government in the supply of new rental housing. From 1976 to 1982 federal and provincial governments invested almost five billion dollars in rental housing. We examine the costs and benefits of this investment from the point of view of what kind of government programs might best address Canada's and Toronto's rental housing problems.

CONTENTS

		Page No.
PREFACE		i
I.	THE GROWING SHORTAGE OF RENTAL HOUSING	1
1.1	Canadian Apartment Starts	1
1.2	Trends in Metropolitan Toronto	3
II.	THE DEMAND FOR RENTAL HOUSING	6
2.1	Declining Household Formation	6
2.2	The Willingness and Ability of Tenants to Pay	9
2.3	Summary	13
III.	SUPPLY FACTORS IN RENTAL HOUSING	14
3.1	The Role of Rising Financing Costs	15
3.2	Comparative Investment Opportunities	19
3.3	Summary	21
IV.	FEDERAL GOVERNMENT ASSISTANCE TO RENTAL HOUSING CONSTRUCTION	21
4.1	A Summary of Government Housing Assistance History	22
4.2	Income Tax Subsidies and the Residential Rental Industry	25
4.3	Costs and Benefits of Government Assistance for Rental Housing	27
V.	THE EFFECTS OF ONTARIO'S RENT REVIEW PROGRAM ON RENTS	31
VI.	SUMMARY AND CONCLUSIONS	36

I. THE GROWING SHORTAGE OF RENTAL HOUSING

This paper reviews the factors involved in declining new apartment starts and in the apparent failure of the residential rental development industry to respond to low vacancy rates and the shortage of rental housing. The intent of this short section is to describe the nature and magnitude of the problem.

1.1 Canadian Apartment Starts

Nationally, the annual number of new apartment starts, which is often used as an indicator of new rental activity, has declined from over 92,000 in the early 1970s to 73,000 in the late 1970s and to under 52,000 in the early 1980s, a decrease of over 40 per cent in only a decade.[1] More significantly however is the fact that new apartment starts appear to be less and less responsive to the shortage of apartments. In the early 1970s new apartment starts exceeded new renter household formations by over one quarter. In the late 1970s new apartment starts were over 10 per cent less than new renter household formation and in the early 1980s this gap between new renter household formations and new apartment starts grew to 38 per cent, the largest gap in

---

1. National construction data disaggregate new starts by type of building, not tenure, and it is thus impossible to determine precisely what proportion of new construction is intended for rent. For purposes of this paper apartment starts are used to approximate rental starts.

recent history.[2] Table 1 below details these trends since the early 1960s.

Table 1

New Apartment Starts and
New Renter Household Formations,
Canada, 1961 - 1984

Years	New Renter Household Formations (Number/Year)	Apartment Starts (Number/year)	New Household Formations/ Apartment Starts
1961 - 65	71,500	57,850	1.24
1966 - 70	97,900	86,400	1.13
1971 - 75	67,700	92,150	0.73
1976 - 80	80,900	73,140	1.11
1981 - 86*	71,500	51,768	1.38

*1981 - 83.

Source: CMHC, Policy and Planning Division, An Analysis of the Rental Market (Ottawa: June 1984).

The natural consequences of the growing gap between new renter household formations and new apartment starts are apartment shortages and low vacancy rates. Average vacancy rates for Canadian cities have declined from an average of 4.0 per cent in the eight years from 1963 to 1970, to 2.5 per

2. Note that Clayton Research Associates estimates that new renter household formation is 51,200 per year in the 1981 - 1986 period. This would imply that the gap between new renter household formations and new apartment starts does not exist. Cf. Clayton Research Associates Ltd., A Longer Term Rental Housing Strategy for Canada (Toronto: 1984). Data used for this report were supplied by CMHC.

cent in the eight years from 1971 to 1978 and then to 2.2 per cent in the four years from 1979 to 1983. Cities characterized by low vacancy rates have had vacancy rates from 1.0 to 1.3 per cent throughout these 20 years.[3]

1.2 Trends in Metropolitan Toronto

Metropolitan Toronto has had one of the tightest rental markets with the lowest vacancy rates throughout most of the past 20 years, and this partly accounts for the seriousness with which rental housing issues are treated in Metropolitan Toronto. In the October 1984 survey of apartment vacancies, which the CMHC undertake semi-annually, the vacancy rate was 0.6 per cent, one of the lowest rates for any major city in Canada, although the lowest rate recorded recently was 0.3 per cent in October 1981.[4] In October 1984 the vacancy rate for units subject to rent review was 0.3 per cent, while it was 2.7 per cent for units not subject to rent review, down from 6.7 per cent in April 1983. Table 2 shows apartment vacancies by year from 1978 to 1984.

---

3. CMHC, Policy Planning Division, An Analysis of the Rental Market (June 1984), p.8.
4. Not shown is the vacancy rate of 1.1 per cent in April 1983 when there was a short-term major shift towards home ownership as a result of incentives offered at the time by both senior levels of government.

Table 2

Apartment Vacancy Rates
Toronto CMA, 1978 - 1984

Year		Per Cent
1978	Apr.	0.9
	Oct.	0.8
1979	Apr.	1.2
	Oct.	1.2
1980	Apr.	1.0
	Oct.	0.5
1981	Apr.	0.4
	Oct.	0.3
1982	Apr.	0.4
	Oct.	0.7
1983	Apr.	1.2
	Oct.	1.0
1984	Apr.	0.8
	Oct.	0.6
Average		1.0

		Under Rent Review	Not Under Rent Review	Total
1983	Apr.	0.6	6.2	1.2
	Oct.	na	na	0.8
1984	Apr.	0.4	3.7	0.8
	Oct.	0.3	2.7	0.6

Source: CMHC, Rental Apartment Vacancy Survey, Toronto-CMA (Various Years). Data are for apartment buildings of six units and over.

Trends in apartment starts and new renter households in Metropolitan Toronto parallel national trends. As is shown in Table 3, the number of new renter households has declined from

24,870 per year in the 1966 - 1970 period to an estimated 9,080 per year in the 1981 - 1986 period. Apartment starts have declined similarly from 21,315 per year to 7,304 per year for the same two periods. In the current 1981 - 1986 period, apartment starts comprise about 80 per cent of new renter household for the Toronto CMA versus less than 75 per cent for Canada as a whole. Rental development was extremely slow in the Toronto CMA in the late 1970s when there were over 1.4 new renter households for each apartment started, versus 1.1 for Canada as a whole. Low activity in that period undoubtedly contributed to the low vacancy rates of the early 1980s.

Table 3

New Apartment Starts and
New Renter Household Formations,
Toronto CMA, 1961 - 1984

Years	New Renter Household Formations (Number/ Year)	Per Cent of Canada	Apartment Starts (Number/ Year)	Per Cent of Canada	Ratio of New Renter Households to Apartment Starts
1961 - 1965	13,476	18.8	13,811	23.9	0.98
1966 - 1970	24,870	25.4	21,315	24.7	1.17
1971 - 1975	10,583	15.6	18,012	19.5	0.59
1975 - 1980	10,267	12.7	7,246	9.9	1.42
1981 - 1984	9,080	12.7*	7,304	14.1	1.23

*Author's assumption. Data for previous time periods from Census of Canada.

Sources: CMHC, Canadian Housing Statistics (Various years); Census of Canada, 1961, 1966, 1971, 1976 and 1981.

The decline in new rental starts since the early 1970s has been large. Rental markets throughout Canada have tightened considerably. The Toronto housing market has historically been a tight one, and the shortage of vacant apartments has become even more severe in the 1980s. Below we examine the contribution of both demand and supply factors to the decline in apartment starts and the resulting tight rental markets.

II. THE DEMAND FOR RENTAL HOUSING

The most significant cause of declining numbers of new apartment starts is declining demand for rental housing. Declining demand is viewed in two ways herein. Demographically, the number of new household formations has declined considerably from the "baby boom" period. Secondly, there have also been significant economic changes in Canadian society that have reduced the relative amount of money in the hands of renters and hence the effective demand for rental housing. These two dimensions of declining demand for rental housing are discussed in turn below.

2.1 Declining Household Formation

Different household types have a greater or lesser tendency to rent. This fact leads us to characterize households by their "stage" in the life cycle. The last few decades have been characterized by increased numbers of young households, both singles and couples without children, with a high tendency to

rent. Young households eventually have children and usually move on to purchasing a home. After the children leave home, there is then a tendency for older households to become renters again, although this tendency is not as great as amongst younger households. Many older people, especially couples, often maintain their homes well into their 70s. Table 4 shows tenure choice by age of household head in 1981 for Canada and the Toronto CMA.

Table 4

Tenure Choice by Age of Household Head, 1981

Age	Renter (%)	Owner (%)	Total (%)
	Canada		
15 - 34	56.3	43.7	100.0
35 - 54	26.3	73.7	100.0
55 and over	32.1	67.9	100.0
Total	37.9	62.1	100.0
	Toronto CMA		
15 - 34	64.5	35.5	100.0
35 - 54	30.7	69.3	100.0
55 and over	38.7	61.3	100.0
Total	43.5	56.5	100.0
Female Heads (All ages)	63.5	36.5	100.0

Source: Census of Canada, 1981.

As shown above, and as shown in Table 5, the tendency to rent or own amongst households with heads in different age groups also depends on household type. Over 17 of every 20 single people aged 15 - 34 rents; over three out of four single

parent families in the same age group rents, while at the other extreme, only one in 16 husband-wife families with children and where the head is aged 55 years and up rents.

Table 5

Tenure Choice by Household Type and Age of Head, Canada, 1981

Household Type	Per Cent Renters			
	Age 15 - 34	Age 35 - 54	Age 55 and over	Total
Single Person	85.6	65.4	53.1	67.0
Husband-Wife Family				
Without Children	58.7	27.5	37.6	34.9
With Children	32.3	14.8	6.6	20.3
Lone Parent Family	77.5	49.0	31.4	52.9
Total	56.0	26.3	32.2	37.9

Source: Census of Canada, 1981.

The relationship between the formation of new households undoubtedly runs in both directions; that is, the number of new households definitely influences the demand for housing and hence the number of units built, while the number of units built may also influence the rate of new household formations; but there is little doubt that there is a strong relationship between the two. Table 1 above showed the annual number of new renter household formations and apartment starts from 1961 to 1983. As we saw there has been a steady

deterioration in the ratio between the number of new apartment starts and the number of new renter household formations from the 1971 to 1976 period, when new apartment starts exceeded new renter household formations by about 27 per cent, to the 1981 to 1983 period, when new renter household formations exceeded apartment starts by 38 per cent.

Using projections by Statistics Canada of population by age group and the 1981 tenure preference for these age groups, CMHC estimates that new renter household formation will decline to 56,500 per year in the upcoming 1986 - 1991 period. Clayton Research Associates, using household type as well as age group projections, estimates that new renter household formations have declined to 51,200 per year in the current period, and that they will decline to 42,000 per year in the 1986 - 1991 period. Thus, new renter household formations are estimated to range from 51,200 to 71,500 per year in the current 1981 - 1986 period, and the above two projections put them at between 42,000 - 56,500 in the 1986 - 1991 period. The demand for new apartment units seems bound to decline still further. Declining new renter household formations will be a primary cause of declining demand.

2.2 The Willingness and Ability of Tenants to Pay

The second dimension of declining demand is declining incomesof tenants relative to the population in general and to home owners. From 1971 to 1983 we estimate that the average

income of tenants increased by 145 per cent.[5] Over the same time period consumer prices increased by 178 per cent, and average wages in Ontario increased by 186 per cent.[6] On average, rents in Metropolitan Toronto increased by 152 per cent, slightly more than the average increase in tenants' incomes, but less than overall consumer prices and, as will be shown below, less than increases in the capital costs of new developments, operating costs or financing costs.[7]

Data on tenure by income group through time also confirm that tenants are increasingly coming from lower income groups. Table 6 shows changes in tenure by income quintile, from 1967 to 1981, where each quintile is one-fifth of total households.[8] For the bottom two quintiles, or the 40 per cent of households with lowest income, the proportion renting increased from 41 per cent in 1967 to over 52 per cent in 1981, while the proportion renting in the top three income quintiles declined from 35 to 26 per cent over the same time period. The result of these trends is that renters come increasingly from low income groups. In the jargon of the real estate development industry the effective demand for rental housing falls as a result.

---

5. Statistics Canada, Income Distribution By Size (various years).
6. The CPI (1971) was 277.7 in 1983.
7. Changes in average rents are based on the SPC estimate of the average for one and two bedroom apartments in Metropolitan Toronto from data supplied by CMHC and by the Ontario Ministry of Municipal Affairs and Housing.
8. Cf. p.13 below.

Table 6

Per Cent Households Renting
by Income Quintile, 1967 - 1981

	Income Quintile					
	Lowest	2	3	4	Highest	All
All Households						
1967	38.0	44.5	41.4	35.8	26.6	37.3
1973	50.1	46.4	42.5	30.2	18.8	37.6
1977	52.6	46.7	36.8	26.8	17.7	36.1
1981	57.0	47.6	37.3	25.0	16.5	36.7
Single Families						
1967	30.1	39.1	37.3	31.7	23.9	32.4
1973	37.4	37.9	33.8	25.4	15.1	29.9
1977	39.1	35.4	28.0	20.9	13.7	27.4
1981	42.6	36.0	27.5	18.5	12.4	27.4
One Person Households						
1967	45.4	49.2	58.2	74.8	74.7	60.5
1973	58.9	58.2	66.3	72.6	72.1	65.6
1977	63.0	60.0	66.8	77.5	69.8	67.4
1981	68.2	61.3	69.6	73.2	58.8	66.2

Source: Statistics Canada, Household Facilities by Income and Other Characteristics, 1982, Tables 6 - 8.

This decline in effective demand is also reflected in increasing affordability problems. Table 7 shows that from 1974 to 1981 the proportion of households in Metropolitan Toronto paying over 30 per cent of their income in rent increased from 23 to over 28 per cent. Four-fifths of the increase in households paying such large proportions of their income for rent actually had rent to income ratios over 40 per cent. There is evidence that affordability problems for renters may have further increased since 1981. From 1981 to 1983 average rents in

Metropolitan Toronto increased by over 19 per cent, while tenant incomes increased by only about 10 per cent.[9]

Table 7

Trends in Housing Affordability, Metropolitan Toronto
1974 - 1981

Year	Per Cent Paying		
	30 p.c. of income or less	31 - 40 p.c. of income	Over 40 p.c. of income
1974	76.9	9.4	13.7
1981	71.4	10.5	17.8

Sources: 1974: CMHC, Survey of Housing Units;
1981: Statistics Canada, Census of Canada, 1981.

Data on household consumption expenditures indicate that the long-term secular decline in rents as a proportion of total income came to an end as the 1980s began. Table 8 shows that on average rental payments were 19 per cent of income in 1969. They had decreased to less than 16 per cent by 1978. From 1969 to 1978 housing became more affordable for most tenants. By 1982 average rental payments for renters had again increased to over 18 per cent of average total expenditures. Again, the major cause of this shift was not so much rapidly rising rents --

9. N.B: The figure 30 per cent of total income as a threshold for indicating the presence of a housing affordability problem is used only because the CMHC and Statistics Canada publish data using this threshold. This does not imply that the author supports the use of this particular threshold as an indicator of housing need.

average rental payments increased by 34 per cent from 1978 to 1982, while consumer prices of all items advanced 50 per cent -- but the fact that the incomes of renters increased by only 16 per cent. Higher income renters were becoming owners, resulting in larger and larger representation of renters in lower income groups.

Table 8

Average Expenditure by Regular Tenants, 1969, 1978 and 1982

	1969	1978	1982
Rented Living Quarters	$1,419.1	$2,596.7	$3,441.4
Water, fuel, electricity	135.5	309.5	439.4
Subtotal Shelter	$1,554.6	$2,906.2	$3,880.8
Shelter, Food, Clothing	3,667.0	7,533.6	8,611.9
Current Consumption	6,508.6	14,463.7	16,647.7
Total Expenditure	8,153.7	18,333.2	21,246.8
Per Cents:			
Shelter/Food, shelter, clothing	42.4	38.6	45.1
Food, shelter, clothing/ total expenditure	5.0	41.1	40.5
Shelter/Total expenditure	19.1	15.8	18.3

Sources: Statistics Canada, Family Expenditures in Canada, 1969, and 1978, Volume 2, Major Urban Centres; and Family Expenditure in Canada, 1982.

2.3 Summary

In summary one very large cause of the decline in new rental starts, as well as declining apartment vacancy rates, may well be the changing nature of demand for rental housing. Firstly, the annual number of new renter household formations has been declining rapidly and will likely continue to decline in the

foreseeable future. Secondly, the changing characteristics of renters, the fact that they come increasingly from lower income groups, and are increasingly elderly, single or single parents, results in a declining ability to pay the rents required in new construction, or even to pay the increased rent for existing buildings that would generate the profits necessary to make it possible for owners to build new buildings. The rental housing construction thus becomes less responsive to very low vacancy rates. Demand factors are only one part of the picture. Supply side factors have also changed in such a way as to make the rental market less responsive to low numbers of vacancies. Events and trends on the supply side are described in the following section.

III. SUPPLY FACTORS IN RENTAL HOUSING

The costs of developing, financing,and operating rental housing have increased more rapidly than either average rents or overall consumer prices over the past fifteen years. Table 9 shows cost indexes for development, operating and financing costs for the years 1971 to 1983. While average rents increased by over 150 per cent in Metropolitan Toronto, development costs increased by almost 185 per cent. Operating costs, spurred in large part by rising costs of heat and utilities, increased by over 210 per cent in the same period.

Table 9

Component Indices of Rental Housing Supply Costs, Metropolitan Toronto, 1971 - 1983

Year	Development Costs1	Operating Costs2	Financing Costs3	Average Rents4	Average Wages (Ontario)	(Renters) Median Income	Overall Consumer Price
1983	284.8	311.9	372.8	252.2	285.9	245.0	277.7
1982	258.0	286.6	439.6	236.7	267.0	231.2	262.5
1981	244.3	251.4	427.2	211.1	243.3	222.1	236.9
1980	222.7	218.2	310.6	193.5	217.8	184.6	210.6
1979	211.4	200.3	254.4	183.6	199.7	174.6	191.2
1978	192.0	185.8	207.3	169.6	184.6	159.7	175.2
1977	175.5	169.6	186.0	156.2	174.4	150.2	160.8
1976	160.5	150.6	189.8	145.8	159.9	N/A	148.9
1975	144.0	130.5	167.3	136.0	143.2	124.1	138.5
1974	134.7	118.1	153.7	113.9	126.9	125.2	125.0
1973	123.2	110.4	123.2	107.9	115.9	111.6	112.7
1972	110.1	104.2	107.9	104.0	108.3	99.9	104.8
1971	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes:
1 Index of construction costs including labour and materials from Statistics Canada 62-007 as reported in Canadian Housing Statistics. A separate index of land costs should be added to develop a true development cost index.
2 Derived from a weightedindex of four sub-components: property taxes, heat and utilities, insurance, and maintenance and repairs. Sub-component indices are contained in CPI.
3 Based on a twenty-five year amortization period, and includes development cost increases.
4 Changes in average rents based on the average for one and two bedroom apartments within Metropolitan Toronto. Data sources include surveys by CMHC, the Ontario Ministry of Housing, and data on market rents contained in Guides for Family Budgeting. Rent levels prior to 1977 are estimates only.

3.1 The Role of Rising Financing Costs

Increases in development and operating costs in the face of the current rental structure, may have in themselves resulted in lower profitability for the rental development

industry. The factor, however, that may have contributed most to making the rental housing market less responsive to low vacancy rates and rising demand is increased financing costs. Nominal mortgage interest rates increased by over 270 per cent from 1971 to 1983. Mortgage payments for new apartments, based on financing for 90 per cent of total development costs, increased by over 280 per cent over the twelve year period. Mortgage payments on an average new apartment in 1983 would have been $560 and total operating costs would have approximated $810, about $395, or 95 per cent, above average rent levels. In 1971, the total cost of mortgage payments and operating costs would have been about $225 for new apartments, or 38 per cent above the then average rent levels of $165 per month.

Other sources confirm that financing costs may be primarily responsible for the relative lack of responsiveness of the rental development industry to historically low vacancy rates. The rental rate, the ratio of rents to the development cost of new apartments, has remained relatively constant for the past fifteen years, decreasing slightly from 15.28 per cent in 1970 to 13.97 in 1981 (Table 10).

Expenses for operating rental units, including property taxes, insurance, heating and utilities, repairs and maintenance, and management, have likewise remained relatively constant as a proportion of total rents. The expense rate has varied from 39 per cent of rents in 1972 to almost 45 per cent in 1981, as the full impact of rising energy prices began to make itself felt.

Table 10

Gross Rent Multiplier and Expense Rate and Rental Rate, Toronto, 1968 - 1981

Year	Average Development Cost*	Annual Rent*	Rental Rate	Expense Rate	No. of Units
1968	$14,429	$2,134	14.79%	42.41%	19,110
1969	14,927	2,221	14.88	42.23	13,335
1970	15,245	2,330	15.28	40.21	5,966
1971	16,133	2,402	14.89	39.51	9,195
1972	16,955	2,483	14.64	39.07	9,628
1973	19,134	2,718	14.21	40.21	10,661
1974	19,515	2,766	14.17	40.09	1,887
1981**	48,121	6,724	13.97	44.99	888

*Unassisted apartment structures (more than 4 stories) in Toronto approved under the NHA. Rent includes parking and other revenue.

**There were only 1,169 units recorded in the 1975 to 1980 period. Due to possible bias, these units were excluded.

Source: Canada Mortgage and Housing Corporation, An Analysis of the Rental Market (June 1984).

Both development and operating costs of new apartments have increased more rapidly than the rents that developers have been able to charge for new apartments. However, the impact of these slight changes have not appreciably affected first year rates of return. As can be seen in Table 11 it is estimated by the Canada Mortgage and Housing Corporation that the first year rate of return for Toronto apartments decreased from 8.5 per cent in 1968 to 7.7 per cent in 1981, disregarding financing considerations. A mortgage interest rate of 14 per cent, slightly above the five year rates prevailing in April 1985, on a mortgage covering 75 per cent of development costs would reduce the 1981 rate of return from 7.7 per cent to minus 11 per cent.

An 18 per cent mortgage interest rate, and rates climbed above this level in 1981, would produce a rate of return of over minus 23 per cent. Mortgage interest rates have a very large impact on profitability levels. Every single per cent rise in mortgage interest rates, assuming a mortgage equal to 75 per cent of development cost, can reduce first year profitability by as much as three per cent.

Table 11

Impact of Interest Rates and Financing on the First Year Rate of Return, 1968/81

	Per Cent of Financing							
Interest Rates	1968*				1981**			
	0	25	50	75	0	25	50	75
6%	8.5	9.4	11.0	16.1	7.7	8.3	9.4	12.7
10	8.5	8.0	7.0	4.1	7.7	6.9	5.4	0.7
14	8.5	6.7	3.0	-7.7	7.7	5.6	1.4	-11.3
18	8.5	5.4	-1.0	-19.9	7.7	4.3	-2.6	-23.3

*Rental rate and expense rate of 14.79 and 42.41 per cent, respectively.
**Rental rate and expense rate of 13.97 and 44.99 per cent, respectively.
Source: Canada Mortgage and Housing Corporation, An Analysis of the Rental Market, p.12.

With high interest rates, new rental projects generally cannot be financed with high ratio mortgages without incurring negative cash flow. On the other hand, low ratio mortgages erode the effectiveness of mortgage leveraging. Table 12 shows the effect of leveraging on the long-term rate of return. Everything

else being equal and for a typical rental project a rate of return of 16 per cent obtains with a 50 per cent ratio mortgage, whereas the rate of return would increase to over 20 per cent if the mortgage ratio were increased to 80 per cent. The inability to apply sufficient leveraging under high interest rates is a primary cause of deteriorating rental profitability.

Table 12

Rate of Return and Leveraging

	Per Cent of Financing			
	80%	70%	60%	50%
Initial Investment	$10,000	$15,000	$20,000	$25,000
Future Cash Outlays	2,753	1,304	332	0
Total Investment	12,753	16,304	20,332	25,000
Future Value of Cash Flow	19,849	28,119	38,234	50,831
Capital Gain	61,152	61,152	61,152	61 152
Total Return	81,001	89,271	99,386	111,983
Annual Rate of Return	20.3%	18.5%	17.2%	16.2%

Assumptions: rental rate = 13.97 p.c.; expense rate - 44.99 p.c.; mortgage interest rate = 14.5 p.c.; and development costs = $50,000 per unit.
Source: Canada Mortgage and Housing Corporation, An Analysis of the Rental Market, p.13.

3.2 Comparative Investment Opportunities

Related to the issues of leveraging and rates of return

for new rental developments are the rates of return on alternative investments. The result of higher rates of return in other sectors will of course be a flow of investments to those sectors. Within the construction sector itself there has been a major movement of activity towards non-residential construction. Table 13 shows that the volume of residential construction decreased from under 46 per cent of total construction activity in the 1970 to 1974 period to under 36 per cent in the 1980 to 1984 period. Over the same two time periods apartments declined from 48 per cent of total housing starts to 32 per cent. High interest rates, aside from reducing rates of return in the rental development industry, also increase the attractiveness of lower-risk financial investments. For instance, in 1981 the first year

Table 13

Apartment Construction, Other Residential Construction and Non-Residential Construction, Canada, 1964 - 1984

	Per Cents	
	Apartment/ Total Residential Starts	Value of Residential/ Non-Residential Construction
1964 - 1969	47.5	40.0
1970 - 1974	41.4	45.6
1975 - 1979	33.0	42.8
1980 - 1984	32.2	35.8

Sources: CMHC, Canadian Housing Statistics;
Bank of Canada, Bank of Canada Review.

rate of return for rental apartment developments in Toronto would have varied from just under eight per cent to minus 11 per cent, depending on leveraging, while the rate of return on investment in long-term Government of Canada securities, which are almost totally risk-free, was 15.2 per cent. In such a market interest-bearing investments become very attractive to investors.

3.3 Summary

Above we have empirically examined supply factors and their affect on the profitability of rental housing and the ability and willingness of rental entrepreneurs to invest in new rental housing. The factor perceived to be more responsible than any other on the declining ability of developers to build new rental housing is high interest rates. The high degree of financial leveraging engaged in by rental developers, leveraging on which acceptable long-term rates of return are extremely dependent, makes the rental development industry more susceptible to the negative impact of high interest rates than many other industries. Most importantly, negative cash flow is associated with high interest rates in the first few years of an investment, and this negative cash flow is a major cause of uncertainty in rental investment today.

IV. FEDERAL GOVERNMENT ASSISTANCE TO RENTAL HOUSING CONSTRUCTION

The refrain that the rental housing market would

function better without government involvement or interference is heard with increasing frequency. We will probably never know whether or not such an assertion is true because we cannot point to any lengthy period in Canada's recent history when government did not have a heavy stake in the rental construction industry. Nevertheless, in this section an attempt is made to review government assistance to rental housing, the costs and benefits of this assistance, and what forms this assistance might best take in the future.

4.1 A Summary of Government Housing Assistance History

In the period since World War II and up through 1983, over two million apartments, accounting for 88 per cent of the new rental housing stock, were built in Canada.[10] Activity by the Canada Mortgage & Housing Corporation (CMHC) resulted in some form of assistance for 566,244 of these units, or 28.2 per cent. This assistance was about equally divided between social housing units owned by public or charitable (including co-operative) organizations and units owned and built by private developers.[11]

---

10. About 2,011,360 apartment starts were recorded by CMHC from 1948 through 1983. The rental housing stock grew by 2,278,939 units. Most of the difference is made up of non-apartment units added to the rental stock.
11. Assistance for social housing totalled 283,772 units, while assistance was provided for 282,472 units owned by private builders. Assistance to private builders includes 101,337 units built by limited dividend corporations, where rents are subjected to review for periods varying from 15 to 25 years by CMHC. The term "charitable" as used in this report includes municipal and private non-profit organizations, as well as co-operative housing societies.

Assistance by CMHC is disaggregated by five year intervals in Table 14, and Appendix 'A' details assistance by year and by program from 1946 to 1984. In the five years immediately following World War II the federal government assisted about 80 per cent of the new apartment units initiated. Many of Canada's large developers actually got their start during this period, and the creation of a residential rental development and management industry had been one of CMHC'S main objectives. Direct government involvement in financing, other than the mortgage insurance function, tapered off rapidly after 1950, averaging 16 to 18 per cent during the 1950s and less than five per cent during the first half of the 1960s. Government assistance then increased to almost 25 per cent in the last half of the 1960s, as government first assumed a major obligation to provide assistance to households in need of shelter assistance, and then to 35 to 40 per cent through most of the 1970s. In the 1980s federal government assistance was provided to over 62,000 units from 1981 through 1983, or almost 40 per cent of the apartment units initiated in this period.

Federal government assistance has varied considerably withrespect to the split between support for social housing and for housing built by entrepreneurs.[12] In the twenty years

---

12. Social housing is defined here as including only that housing built for ownership by government and charitable organizations. All other assistance goes to entrepreneurs who manage and operate housing for profit, although historically about 36 per cent of the assistance for private entrepreneurs has been to limited dividend companies whose rent levels are authorized by CMHC and are often considerably below average market levels. The limited dividend program was terminated in 1975.

Table 14

FEDERAL GOVERNMENT ASSISTANCE
TO RENTAL HOUSING CONSTRUCTION,
CANADA, 1948 - 1983

Years	Dwelling Units			
	(1) Total Apartment Starts	(2) Social Housing*	(3) Assistance to Entrepreneurs	(4) Special Tax Assistance**
1948 - 1950	33,606	340	27,307	
1951 - 1955	104,841	4,618	14,542	
1956 - 1960	166,318	4,226	23,700	
1961 - 1965	289,260	5,365	8,535	
1966 - 1970	432,007	73,629	28,760	
1971 - 1975	460,739	94,287	57,797	5,110
1976 - 1980	365,694	60,200	100,822	164,473
1981 - 1983	158,895	41,107	21,009	88,745

	Per Cents				
	(1) Social Housing of Total Apt. Starts	(2) Entre-preneurial Assistance of Total Apt. Starts	Total of 1 & 2 Total Apt. Starts	Special Tax Assistance Total Apt. Starts	Total of 1, 2 & 3 Total Apt. Starts
1948 - 1950	1.0	81.3	82.3	-	82.3
1951 - 1955	4.4	13.9	18.3	-	18.3
1956 - 1960	2.5	14.3	16.8	-	16.8
1961 - 1965	1.8	3.0	4.8	-	4.8
1966 - 1970	17.0	6.7	23.7	-	23.7
1971 - 1975	20.5	12.5	33.0	1.1	34.1
1976 - 1980	16.5	27.5	44.0	45.0***	89.0
1981 - 1983	25.9	13.2	39.1	55.8	94.9

*Includes public housing (1950 - 1983), student housing apartments (1965 - 1973) and non-profit and co-operative housing (1964 - 1983).
**Multiple Unit Residential Buildings (MURB) program. Data assume that 60 per cent of units for which tax certificates issued are rental. Cf. Arthur Anderson.
***Many units receiving assistance under the Assisted Rental Program also received MURB Certificates. The full extent of overlap is not known.

Sources:
1) Clayton Research Associates Ltd., Rental Housing in Canada Under Rent Control and Decontrol Scenarios, 1985 - 1991. Appendix Volume (Toronto: Canadian Home Builders' Association, November 1984);
2) Arthur Anderson and Co., Federal and Provincial Government Expenditures to Assist and Promote Rental Housing in Canada, 1976 - 1982 (Toronto: Canadian Home Builders' Association, May 1984).

following World War II five times as many entrepreneurial units were assisted as social housing units. In the last two decades, from 1966 through 1983, only 45 per cent of the total number of units assisted by the federal government were entrepreneurial units built for profit. Half of the entrepreneurial units were built in the five years from 1976 through 1980 when over two-thirds more entrepreneurial units were assisted than social housing units. In the early 1980s assistance again shifted away from entrepreneurs and towards social housing.

4.2 Income Tax Subsidies and the Residential Rental Industry

Private developers also receive government assistance through the tax system. All owners of residential real estate may claim a deduction for capital cost allowance (depreciation) against rental income that may be twice the actual rate of depreciation. The difference between actual depreciation and that allowed for taxation purposes becomes at the very least an interest free loan from government. Some experts estimate that the value of tax benefits associated with building and owning new residential buildings is often equal to 20 per cent of rental revenue in the first year of occupancy and declining amounts thereafter. Such a reduction, especially if complete occupancy of a new building is a long time in coming, may be necessary for producing positive cash flow and may not result in corresponding rent reductions. All owners of rental buildings receive these benefits, and accelerated capital cost allowance has existed on a more or less continuous basis since 1947.

When the Income Tax Act received a major overhaul in 1972 one tax feature that was eliminated that had significantly benefitted owners of residential rental properties was the off-setting of tax losses stemming from capital cost allowance on rental properties against non-rental income. Many high income professionals -- doctors, lawyers and so forth -- as well as other high income individuals, invested in residential rental real estate because this tax advantage was available to them.

New apartment starts declined markedly following the 1972 overhaul of the Income Tax Act. The building industry took the opportunity to advocate the re-opening of this tax avoidance mechanism, and the federal government responded in late 1975 with the Multiple Unit Residential Building (MURB) program. Under this program individuals could deduct excess (over rental revenue) capital cost allowances, as well as other front-end (soft) costs of new building, against non-rental income. The result was a flurry of apartment building activity, much of it syndication of large projects, that allowed the tax advantages to flow through to high income individuals.

Revenue Canada issued certificates for 327,022 units from 1975 through 1981 when the program was terminated.[13] Many of these units were never built, and many certificates issued were for condominium projects, but it is estimated that 60 per cent, or over 268,000, of the units for which certificates were

---

13. The program was allowed to expire on December 31, 1979, but it was re-initiated for one year in 1981.

issued were rental.[14] While some projects receiving certificates likely also received direct assistance from CMHC under the Assisted Rental Program (ARP), if the numbers of units receiving special tax treatment are added to the number of units receiving direct assistance from the federal government, then the total number of units receiving either direct or special tax assistance increased to over 90 per cent of the total apartment starts over the past decade. It is an understatement to say that the federal government has been heavily involved in producing rental housing.

4.3 Costs and Benefits of Government Assistance for Rental Housing

One observer estimates that the federal government invested about $5 billion in rental housing production between 1976 and 1982.[15] One of the biggest issues facing the two senior levels of government, and especially the federal level which has made the biggest investment, is whether or not expenditures for rental housing have been worthwhile? A finite answer to this very large question depends on the criteria used.

Two criteria have been commonly used. First, if the objective of the expenditure is to stimulate new rental construction, then a reasonable test of whether or not the expenditure is worthwhile is the extent to which additional

---

14. Arthur Anderson and Associates, Federal and Provincial Government Expenditures to Assist and Promote Rental Housing In Canada, 1976 - 1982, p.31.
15. Arthur Anderson, Op. cit.

construction that would not otherwise occur is stimulated by the expenditure of public funds. A second test of worth, and one used by the Canada Mortgage and Housing Corporation in its evaluation of the Section 56.1 program that provides subsidies to non-profit companies and co-operative housing societies, is the investment per rent-geared-to-income unit created for occupancy by qualified low income households. In the case of the Section 56.1 program it was found that the cost (discounted present day value) for such units varied between $72,470 for public housing and $105,418 for co-operative housing societies. Section 44(1)(a), where public housing authorities rent units from private developers, were $96,513 per unit.[16]

In 1982 the Economic Council of Canada examined the economic efficiency of government loan guarantee programs in four areas, including housing finance and construction.[17] A companion discussion paper was produced by CMHC in June 1984, but never published.[18] The latter report estimates the effect of ARP, MURB and CRSP programs, as well as the social housing programs, on total rental apartment starts in the 1974 to 1978 and 1981 to 1983 periods. It was found that the effects on

---

16. Assumes 13 p.c. mortgage interest rate, 7.7 p.c. rate of inflation and 10 p.c. discount rate. C.M.H.C., Section 56.1 Non-profit and Co-operative Housing Program Evaluation (Ottawa: November 1983), Table 8.7, p.306. Note that the calculations for section 44(1)(a) include only the costs of leasing units and exclude any additional subsidy costs under the Assisted Rental, Canadian Rental Supply and Multiple Unit, Residential Building programs. Cf. Annex 4, Ibid.
17. Intervention and Efficiency.
18. CMHC, Planning Division, An Analysis of the Rental Market (June 1984).

starts was negative in the case of ARP/MURB and CRSP and positive in the case of socially-assisted starts, indicating that some proportion, 28 per cent in the case of the ARP/MURB programs, of starts would have occurred without the loan subsidies. These CMHC data confirm the results of the study by the Economic Council of Canada, where it was found that a ten per cent interest rate subsidy would increase housing starts by only three per cent. On the other hand, socially-assisted starts were a complete add-on to the private rental apartment starts. Very few of the units would have been built without government assistance.

One explanation for why interest rate subsidies tend not to result in additional housing starts, while investments in socially-assisted housing do add to housing starts, is the mode of subsidy. Programs such as ARP, MURB or CRSP provide subsidies to the producers of rental housing. To the extent that these subsidies do not result in lower rents and consequently do not expand the demand base for rental housing, subsidized starts would tend to displace unsubsidized starts. On the other hand, socially-assisted starts when targetted tend to increase housing consumption and raise the level of starts.

The second test of whether or not government investments to private developers are worthwhile is the cost per unit assisted vis-a-vis the cost for other programs. Table 15 provides the discounted present value of subsidies per unit for the assisted rental (ARP), Canadian rental supply (CRSP) and

Multiple unit residential buildings (MURB) programs.[19] Costs per unit range from a low of $3,402 per unit for ARP to a high of $10,606 for MURB.

Table 15

COST PER UNIT OF PRIVATE RENTAL SUBSIDIES, 1981

	ARP	ARP + MURB	CRSP	MURB
Special Program Cost/Unit	3,402	14,008	5,359	10,606
Special Program Cost/Subsidized unit*	30,924	127,332	48,713	n.a.
Total Cost/Unit**	127,437	223,845	145,226	n.a.

*Assumes that 11 per cent of units are leased.
**Section 44(1)(a) costs per rent supplemented unit are estimated at $96,513 by CMHC.
n.a. = not applicable.

In its evaluation of the Section 56.1 program for non-profit companies and co-operative societies, CMHC evaluators chose as their objective function the subsidy cost per rent-geared-to-income (RGI) unit, rather than the cost per unit for all units. The rationale for this choice of test was that all of the costs should be loaded on to the RGI units because the provision of housing assistance to low-income Canadians is the only legitimate function of government housing programs. Applying this same logic to the private market housing programs, and assuming that 11 per cent of units are ultimately leased by

19. In 1981 dollars. Discounted at 10 per cent per year. Costs taken from Arthur Anderson, Op. Cit., p.40, and discounted to present day value for 1981.

public housing authorities for households receiving RGI subsidies, then the subsidy costs per RGI unit range from $30,924 for ARP to $127,332 for ARP where MURB provisions have also been used, and total subsidy costs per subsidized unit, including the costs of leasing units from private owners for RGI tenants, range from $127,437 for ARP to $223,845 for ARP where MURB tax provisions have also been used. These costs compare unfavorably with the 1981 discounted present value costs of $92,893 for non-profit units, $105,418 for co-operative units and $72,470 for public housing units. The social housing programs also result in public ownership of the units at the end of the program. It was also concluded above that investments in social housing are also more effective from the point of view of stimulating additional housing starts.

V. THE EFFECTS OF ONTARIO'S RENT REVIEW PROGRAM ON RENTS

We have to this point not commented extensively on the rent review system itself. Accurate information on its effects are difficult to derive. The rules and regulations governing Ontario's rent review are complex and have fluctuated considerably. Although they are nevertheless real many of the effects of rent review result from subjective perceptions by investors and developers. The fear that rent review may be extended to post-1975 apartments, as has occurred in one province, is one example of the subjective impact of rent review on rental housing investment decisions. The subjective element is uncertainty about the future. Uncertainty and subjectivity

are difficult factors to evaluate, and it is this that has caused us to largely ignore the contribution of rent review to the lack of responsiveness of the rental development industry to low vacancy rates to this point. We have focused on factors and variables that tend to be measurable.

We have seen that a great many factors have likely contributed to the decrease in new rental housing production and even to decisions by existing landlords to leave the business. The single most reliable predictor of new rental housing starts is the number of 18 to 24 year olds living at home and thus potential new household formations. Declining new rental household formations are likely the single largest cause of there being fewer apartment starts than only a few years ago. The tendency towards lower real incomes amongst renter households, lower effective demand, is also another important reason for declining new apartment starts. Declining demand appears to be the most significant contributor to declining apartment starts.

Supply side variables and the fact that development, financing and maintenance and repair costs have all increased at a faster rate than overall consumer costs or rents over the past decade or decade and a half have also impinged negatively on the market for rental housing. Increased financing costs associated with high interest rates, however, appear to be the most significant supply side factor. A nine per cent increase in rents for new apartments in Toronto would bring the rental rate to the historical high reached in 1970. The gap between rent levels for

existing apartments and rent levels for new apartments necessary for developers to have a positive cash flow during the first year of rental, however, has grown from just under 40 per cent of average rents for existing apartments to 85 per cent. Most of this increased gap results from increased financing charges.

Given the above movements in demand and supply variables it is very difficult to say precisely what might be contribution of rent review to decreased new apartment starts.

Several analysts have, however, attempted to estimate the effects of Ontario's rent review program on rent levels. Based on an extensive survey of rents in Toronto in 1982 in both the controlled (built prior to 1976) and non-controlled sectors, and on standard techniques employed by statisticians, Jazairi concludes that rents in the controlled sector are from nine to 14 per cent less than rents in the non-controlled sector (units built and rented after 1975) after controlling for quality differentials.[20] The observed differential between rents in the two sectors is 27 per cent, but it is estimated that from one-half to two-thirds the differential arises from the fact that controlled units are of lower quality.

Fallis and Smith have examined the issue as well and

---

20. Nuri T. Jazairi, Hedonic Rent Index-for Rent-controlled and Non-Controlled Apartments in Toronto (Ottawa: CMHC, 1983), pp.4, 5.

have made similar conclusions.[21] Based on the same survey noted above, they estimate that rents in the controlled sector were 12.4 per cent less in 1982 than they would have been in the absence of rent review.[22] They are careful, however, not to conclude that rents would increase by this amount if they were decontrolled, as rent review has affected a variety of factors, including the supply of rental housing, tenure preferences and the natural vacancy rate, and these factors are not included in the measure of rent lags in the controlled stock.

Analysts seem to be in agreement that Ontario's rent review program has depressed rents below levels that would have obtained in the absence of the program. There seems to be agreement that if the rent review program were terminated, rents would increase to their "natural" level, and this level might be nine to 14 per cent above current levels. Profit levels for owners would likely increase as well. Left unanswered, however, is the question of how much more responsive to low vacancy rates the rental development industry would become in the absence of Ontario's rent review program?

Detractors of rent review blame it for all of the problems of the rental housing sector. The Canadian Home Builders' Association are currently advocating that rent review be eliminated, that the social housing programs be eliminated and

---

21. George Fallis and Laurence B. Smith, Rent Controls With Exemptions (Ottawa: CMHC, 1984).
22. Ibid, p.57 and note 33.

that the funds saved in social housing be rechannelled to needy tenants whose rents would have increased as a result of eliminating the rent review program. Even ignoring the issue of whether the shelter allowance program being proposed would be an adequate one, and legitimate questions could be raised in this regard, there is the possibility that rents would have increased significantly in real terms, and that the increases would not have been sufficient to cause developers to respond sufficiently to low vacancy rates.

For instance, one analyst has written a report for the Canadian Home Builders' Association in which it is concluded that a 25 per cent overall rent increase would be required before rental developers would respond sufficiently. As we have seen above, however, other analysts are not projecting rent increases of this magnitude should rent review be eliminated. They are projecting lower rent increases. If government were to carry out the program being advocated by the C.H.B.A. the result might be a rental market with higher overall rents, more households with affordability problems, fewer social housing units to assist those in need and an apartment shortage as severe as ever.

Solutions to our rental housing problems require an acknowledgement that major changes have occurred in rental housing markets. Renter households have lower real incomes than a decade ago. Costs of supplying and operating rental housing, especially financing costs, have increased much more rapidly than rents, tenant incomes or general price levels. The result of

these forces is a rental housing market with different market dynamics than the one that existed a decade ago. Different public policies may be required as well.

VI. SUMMARY AND CONCLUSIONS

The objective of this paper has been to explore the causes of the considerable decline in new apartment starts in Toronto and in Ontario and the apparent lack of response of the rental development industry, certainly in the Toronto region, to historically low apartment vacancy rates. Having examained the various causes, we were then to assess the extent to which Ontario's rent review system may have contributed to these phenomena.

We are now able to conclude that demographic factors resulting in decreased numbers of renters are chiefly responsible for declining numbers of apartment starts. Other demand and supply side forces seem to be largely responsible for the fact that new apartment starts have been lagging considerably behind the growth in renter households. On the demand side tenants are tending to come from lower income groups. The overall income of tenants has decreased considerably relative to incomes in general. Average tenant incomes have lagged behind both overall price levels and rents. On the supply side rental development costs and operating costs have increased more rapidly than rents or tenants' incomes. Financing costs have increased more rapidly yet, and the result is that the gap between average rents for

existing buildings and for the break-even operation of new buildings has grown from 40 per cent of existing rents in 1968 to 85 per cent in 1981. Almost all of the wider gap results from increased financing costs. Only one-fifth results from the gap between rents and development and operation costs.

The federal and provincial governments have responded to the decline in new rental housing starts with a variety of programs designed to reduce income taxes on investors and to subsidize loans. We have reviewed these programs above as well. The major conclusion of this review is that the subsidies have done little in themselves to increase new rental housing starts. Several studies have concluded that apartment starts are very insensitive to the loan subsidies provided.

Some of these programs have had a social component as well. As a condition for receiving the loan subsidies developers may be required to offer up to 25 per cent of the new units to public authorities for sub-leasing to households in need of housing assistance. Nowhere near the 25 per cent of units have in fact been taken up by public authorities. In Ontario the proportion averages 10 or 11 per cent, and if the total cost of loan and tax subsidies and public losses on sub-leasing the units to households in need is all attributed to the 10 or 11 per cent of units taken up, then the cost per unit is often twice what it would be under the social housing programs that the Canada Mortgage and Housing Corporation say are too costly for the benefits received.

Public policy discussion of what to do about the nation's housing problems should take into account the changed circumstances of the rental housing market and of renters. The real incomes of renters are declining relative to those of owners. Renters increasingly constitute a residual category of households that cannot afford to own. The numbers of tenants with affordability problems is growing.

It may be good public policy to enlarge, not shrink, the social housing sector. That new developments are suitable only for those able to afford high rents is now more true than it ever was. It was concluded in the above discussion that public subsidies of social housing starts resulted in long-term increases in the number of new dwelling starts over what would have occurred in the absence of subsidies and that it was cheaper per assisted family to provide unit subsidies through social housing organizations than through the private entrepreneur programs. The existing social housing programs can be streamlined and made more efficient.[23]

Changes in the nature of the rental housing market and of renters, especially renters meeting standard criteria for needing housing assistance, also make it timely for the two senior levels of government to consider altering eligibility

---

23. Social Planning Council, Strategies for Implementing A New Housing Agenda for Metropolitan Toronto: A Response to the Federal Government's Consultation Paper on Housing (Toronto: 1985)

criteria for assistance. Up until now only the disabled, seniors over age 59 and families with children have been eligible to receive subsidies. Many of those needing assistance are single people not meeting the age criteria for senior citizens. Most of the growing number of homeless persons in Metropolitan Toronto are single as well. Eligibility for housing assistance needs to be extended to households without children who do not meet the age test as senior citizens.

Appendix 'A'

FEDERAL GOVERNMENT ASSISTANCE TO RENTAL HOUSING CONSTRUCTION, CANADA, 1946 - 1983

Year	Loans to Limited Dividend Companies	Veterans Rental Housing Program	Double Depreciation Plan	Rental Guarantee Scheme	Public Housing	Small Homes Loans	Student Housing Apartments	Non-Profit and Co-op Program	Assisted Rental Program	Canada Rental Supply Program	Total Direct Assistance	Total Apartment Starts	Per Cent Assisted	MURBs	Total Direct and Indirect Assistance	Per Cent Starts Assisted	Total
1946	3,449	6,133									9,582						
1947	75	6,709	370								7,154						
1948	116	8,199	365								8,680	7,497	115.8				
1949	144	4,866	677	6,621							12,308	11,548	106.6				
1950	94		1,908	4,317	340						6,659	14,561	45.7				
1951	174			1,213	1,495						2,882	9,865	29.2				
1952	841			3,607	732						5,180	16,891	30.7				
1953	1,295			3,164	378						4,837	23,872	20.3				
1954	2,291			534	1,495						4,320	27,455	15.7				
1955	1,423				518						1,941	26,758	7.2				
1956	1,620				520						2,140	24,987	8.6				
1957	4,124				1,203	3,100					8,427	27,899	30.2				
1958	6,282				1,090	2,435					9,807	46,954	20.9				
1959	4,518				672	36					5,226	36,791	14.2				
1960	1,591				735						2,326	29,687	7.8				
1961	3,326				910						4,236	35,633	11.9				
1962	1,328				547						1,875	40,935	4.6				
1963	2,094				989						3,083	59,680	5.2				
1964	1,717				514			144			2,375	75,118	3.2				
1965	70				1,128		28	1,105			2,331	77,894	3.0				
1966					3,879		508	1,612			5,999	51,551	11.6				
1967					8,558		1,530	1,104			11,192	74,258	15.1				
1968	1,956				9,274		1,115	2,237			14,582	103,383	14.1				
1969	7,364				15,603		1,604	2,918			27,489	110,917	24.8				
1970	19,440				19,669		588	3,430			43,127	91,898	46.9				
1971	11,059				21,244		732	3,109			36,144	106,187	34.0				
1972	8,470				16,083		745	1,813			27,111	103,715	26.1				
1973	4,311				13,429		108	1,207			19,055	106,451	17.9				
1974	2,015				12,403			5,052			19,470	74,025	26.3				
1975	10,150				13,354			5,008	21,792		50,304	70,361	71.5	5,110	55,414	78.8	
1976					13,828			8,245	26,295		48,368	89,324	54.1	21,131	69,499	77.8	
1977					6,763			4,562	57,044		68,369	92,327	74.0	49,359	117,728	127.6	
1978					7,800			3,178	17,483		28,461	77,327	36.8	48,053	76,514	98.9	
1979					1,601			4,721			6,322	58,387	10.8	45,930	52,257	89.5	
1980					1,331			8,171			9,502	48,329	19.7	0	9,502	19.7	
1981					1,367			11,780			13,147	61,609	21.3	26,629	39,776	64.6	
1982					1,210			13,243		10,744	25,197	53,162	47.4	0	25,197	47.4	
1983					1,299			12,208		10,265	23,772	44,124	53.9	0	23,772	53.9	